PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA **Item No.** 6c

Date of Meeting October 26, 2010

DATE: September 23, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Elizabeth Morrison, Sr. Manager, Corporate Finance

SUBJECT: Second Reading and Final Passage of Resolution No. 3643 authorizing the sale and issuance of Passenger Facility Charge Revenue Refunding Bonds, Series 2010A and 2010B in the aggregate principal amount of not to exceed $165,000,000*.*Preliminary, subject to change

ACTION REQUESTED:

Second Reading and Final Passage of Resolution No. 3643 authorizing the sale and issuance Passenger Facility Charge Revenue Refunding Bonds, Series 2010 in the aggregate principal amount of not to exceed $165,000,000 (preliminary) for the purpose of refunding for interest cost saving a portion of existing Passenger Facility Charge Revenue Bonds.

SYNOPSIS:

Commission authorization is requested to issue Passenger Facility Charge (PFC) Revenue Refunding Bonds, Series 2010 (the Bonds), in an amount estimated at $165 million (including cost of issuance) to refund existing debt for the purpose of interest cost savings. This refunding is estimated to provide $13 million present value savings which will reduce Airport costs.

BACKGROUND:

In 1992, the Port implemented a PFC program pursuant to Federal Aviation Administration authority. 1998, the Port issued $262,500,000 of Passenger Facility Revenue Bonds. These bonds were used to fund portions of the costs of the third runway, the satellite transit system and concourse A projects at SeaTac Airport. The bonds are secured solely by the PFCs collected on departing passengers; no other revenues or funds of the Port are pledged to the bonds.

As of December 1, 2010 $190,125,000 of the 1998 PFC Bonds will remain outstanding. Of that, $159,105,000 is callable at par on or after December 1, 2010. Current low interest rates provide an opportunity to refund the callable bonds and reduce future debt service payments by an estimated $13 million present value (an estimated $17 million nominal value or an average of $1.3 million per year in lower debt service payments). The lower debt service payments will allow more PFCs to be available to other authorized uses. $31,020,000 of the 1998 PFC bonds is not callable and matures in 2019; this amount will remain outstanding. The Bonds will be issued as fixed rate bonds substantially similar to the Series 1998 and are payable from PFC funds.

RESOLUTION NO. 3643:

The Bonds will be issued in two series based on their tax status: governmental purpose bonds exempt from all federal income tax and private activity bonds exempt from regular federal income tax, but subject to the Alternative Minimum Tax (AMT).

Resolution No. 3643 is the Series Resolution and is authorized pursuant to the Resolution No.3284, as amended, the PFC Master Resolution. The Master Resolution requires the Port to maintain a Debt Service Reserve fund which will be funded from the cash currently in the existing Debt Service Reserve Fund. The Series 2010 bonds will be issued on parity with the Series 1998 bonds.

Resolution No. 3643 provides for amendments to the PFC Master Resolution which will take effect upon the maturity or defeasance of all of the 1998 PFC bonds. These amendments are designed to update the PFC bonds to better reflect the current PFC program and bond market and do not materially alter the provisions of the PFC Master Resolution. Amendments include:

- Simplification of the First Lien Sufficiency Covenant to require maintenance of PFCs, along with any other pledged revenues, sufficient to pay PFC bond debt service
- Provision for the PFC bond owners or the Port to appoint a Trustee in the event of a default
- Provision for the appropriate accounting of any Federal Government credit if the Port ever issues PFC bonds in the form of Build America Bonds (these refunding bonds do not contemplate the use of Build America Bonds)

The Series Resolution delegates to the Port's Chief Executive Officer the authority to approve interest rates, maturity dates, redemption rights, interest payment dates, and principal maturities for the Bonds (these are generally set at the time of pricing and dictated by market conditions at that time). Commission parameters that limit the delegation in the form of a maximum bond size, minimum savings rate and expiration date for the delegated authority. If the Bonds cannot be sold within these parameters, further Commission action would be required. The parameters are:

Maximum bond size - $165,000,000
Minimum present value savings target – 2.75%
Expiration date – January 26, 2011

Upon adoption, Resolution No. 3643 will authorize the Chief Executive Officer to approve the final interest rates, maturity dates, aggregate principal amount, principal maturities and redemption rights and upon such approval, authorize the Designated Port Representative (the Chief Executive Officer or the Chief Financial Officer) to execute the Bond Purchase Contract, the Official Statement, escrow agreement if any, pay the cost of issuance and take other action appropriate for the prompt execution and delivery of the Bonds. The Bonds will be sold through negotiated sale to Goldman Sachs & Co., Barclays Capital, Morgan Stanley & Co., Inc. and

Seibert Brandford Shank & Co., LLC. Seattle Northwest Securities Corporation, Inc. is serving as Financial Advisor on the transaction.

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

Resolution No. 3643 Passenger Facility Charge Revenue Refunding Bonds Series Resolution.

PREVIOUS COMMISION ACTIONS OR BRIEFINGS:

- May 11, 2010- Commission Briefing on Intermediate Lien Revenue Bonds, Series 2010 including possible refunding of 1998 Passenger Facility Charge Revenue Bonds